

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF ADAIR COUNTY WATER	)	
DISTRICT FOR AUTHORITY TO EXECUTE AN	)	
ASSISTANCE AGREEMENT WITH KIA IN THE	)	CASE NO. 2011-00478
PRINCIPAL AMOUNT OF \$4,000,000 PURSUANT	)	
TO THE PROVISIONS OF KRS 278.300 AND 807	)	
KAR 5:001	)	

ORDER

Adair County Water District ("Adair District") has applied for authorization to enter a loan agreement with the Kentucky Infrastructure Authority ("KIA"). Having reviewed the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Adair District, a water district organized pursuant to KRS Chapter 74, owns and operates facilities that furnish and distribute water to approximately 7,598 customers in Adair County, Kentucky.<sup>1</sup>

2. Adair District proposes to construct a hydraulic improvement project that consists of approximately 33,400 linear feet of 12-inch ductile iron water main; 4,800 linear feet of 8-inch ductile iron water main; 200 linear feet of 6-inch ductile iron water main; 72,100 linear feet of polyvinylchloride ("PVC") water main; 5,700 linear feet of 6-inch PVC water main; 600 linear feet of 3-inch PVC water main; a booster pump station; a 750,000 gallon elevated water tank; and related appurtenances.

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<sup>1</sup> *Report of Adair County Water District to the Kentucky Public Service Commission for the Year Ended December 31, 2010 ("2010 Annual Report") at 5 and 27.*

3. Adair District proposes to construct a water transmission main from its existing 1,000,000 gallon water storage tank, which is located near the intersection of Kentucky Highway 61 and the Cumberland Parkway, along Kentucky Highway 61 to the intersection of Kentucky Highway 61 and Kentucky Highway 768, where the proposed 750,000 gallon elevated water storage tank will be constructed.

4. The proposed project is intended to increase water supply and water pressures in the southern portion of Adair District's territory. Customer growth in this area and the limited storage capacity has resulted in decreasing water pressures that are near regulatory minimums.

5. Total construction cost of the proposed water transmission main and pump station project is \$2,045,000.

6. Total construction cost of the proposed elevated water storage tank is \$1,238,000.

7. Total project cost, including contingencies, engineering design, legal and administrative costs, is estimated to be \$4,034,000.

8. The Commission has previously found that the public convenience and necessity require the construction of the proposed project.<sup>2</sup>

9. Adair District proposes to finance the proposed project with a \$4.0 million loan from the Kentucky Infrastructure Authority ("KIA") and internally generated funds of \$34,000.

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<sup>2</sup> Case No. 2011-00127, *Application of Adair County Water District for a Certificate of Public Convenience and Necessity Authorizing Construction of Major Additions and Improvements to Its Water Distribution System Pursuant To The Provisions of KRS 278.020(1) and 807 KAR 5:001* (Ky. PSC Apr. 29, 2011).

10. KIA has approved a loan of \$4.0 million from the Drinking Water State Revolving Fund to be repaid over a 20-year period at an interest rate of one percent. The proposed loan agreement further requires Adair District to pay a loan servicing fee of 0.25 percent of the annual outstanding loan balance.<sup>3</sup>

11. The estimated annual debt service payment for the proposed loan with KIA, including principal, interest, and loan servicing fee, is \$231,164.<sup>4</sup>

12. For the calendar year ending December 31, 2009, Adair District incurred a net operating loss of \$244,914.<sup>5</sup>

13. For the calendar year ending December 31, 2010, Adair District incurred a net operating loss of \$370,724.<sup>6</sup>

14. The last adjustment of Adair District's rates for water service occurred on August 28, 2009.<sup>7</sup>

15. To meet its annual debt service payments and maintain a debt service coverage ratio of 1.20 as its bond covenants require, Adair District must adjust its rates for water service.

16. Adair District proposes to apply to the Commission for an adjustment of its rates for water service in January 2012.

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<sup>3</sup> Letter from Kasi L. White, Financial Analyst, Kentucky Infrastructure Authority, to Danny Downey, Chairman, Adair County Water District (July 6, 2010).

<sup>4</sup> Application at ¶ 15.

<sup>5</sup> *2010 Annual Report* at 11.

<sup>6</sup> *Id.*

<sup>7</sup> Case No. 2009-00320, *The Application of Adair County Water District for a Certificate of Public Convenience and Necessity to Construct Water Distribution System Improvements and the Approval of the Proposed Plan of Financing Improvements* (Ky. PSC Aug. 28, 2009).

17. The proposed loan agreement with KIA is for a lawful object within Warren District's corporate purposes, is necessary and appropriate for and consistent with Warren District's proper performance of its service to the public and will not impair Warren District's ability to perform that service, and is reasonably necessary and appropriate for such purpose.

18. Adair District has requested a deviation from 807 KAR 5:001, Section 11(2)(a), which requires the filing of a financial exhibit covering "operations for a twelve (12) month period . . . ending not more than ninety (90) days prior to the date the application is filed."<sup>8</sup> It has provided its financial statements for calendar year 2010 and represents that there has been no change that is material in nature in its financial condition or operation since the publication of these statements.

19. Adair District has demonstrated good cause to permit its deviation from 807 KAR 5:001, Section 11(2)(a).

IT IS THEREFORE ORDERED that:

1. Adair District's motion to deviate from 807 KAR 5:001, Section 11(2)(a), is granted.
2. Adair District's application is considered filed as of December 8, 2011.
3. The record of Case No. 2011-00127 is incorporated by reference into the record of this proceeding.

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<sup>8</sup> 807 KAR 5:001, Section 6. 807 KAR 5:001, Section 11(2)(a), refers to Section 6. While Adair District requests a deviation from 807 KAR 5:001, Section 6, its requested relief requires a deviation from 807 KAR 5:001, Section 11(2)(a). The Commission will consider Adair District's request as a motion to deviate from 807 KAR 5:001, Section 11(2)(a).

4. Subject to the condition set forth in ordering paragraph 7, Adair District is authorized to enter into a loan agreement with the KIA for an amount not to exceed \$4.0 million with a term of 20 years at an interest rate of one percent per annum.

5. Within 30 days of executing its proposed loan agreement with KIA, Adair District shall advise the Commission in writing of execution of that agreement and of any terms in that loan agreement that differ from those described in Adair District's application.

6. Adair District shall use the proceeds from the proposed loan agreement with KIA only for the purposes set forth in its application.

7. Within 60 days of the date of this Order, Adair District shall file with the Commission an application for an adjustment in its rates for water service sufficient to enable the water district to meet the debt service coverage requirements set forth in its bond covenants

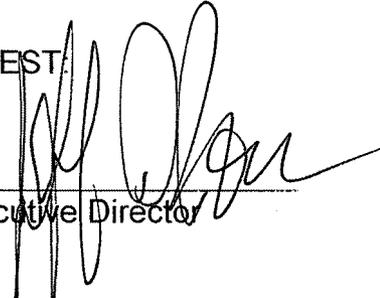
8. Any documents filed pursuant to ordering paragraph 5 of this Order shall reference the number of this case and shall be retained in the utility's general correspondence file.

Nothing contained herein shall be deemed a warranty or guarantee of the Commonwealth of Kentucky, or any agency thereof, of the evidences of indebtedness authorized herein.

By the Commission

ENTERED <sup>DA</sup>  
DEC 27 2011  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
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Executive Director

Case No. 2011-00478

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